Mr. R. V. Le Sueur

The Province of Alberta

IN THE MATTER OF "THE NATURAL GAS UTILITIES ACT"

—and—

IN THE MATTER OF an Enquiry into Scheme to be adopted for Gathering, Processing and Transmission of Natural Gas in Turner Valley

G. M. BLACKSTOCK, Esq., K.C., *Chairman*

Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

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WITNESSES

E X H I B I T S

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H. Le M. STEVENS-GUILLE HAVING BEEN RECALLED EXAMINED BY THE CHAIRMAN TESTIFIED AS FOLLOWS:

Q When we adjourned yesterday, Mr. Stevens-Guille, you had told me that the absorption plants and the scrubbing plants got free fuel because of tradition?

A And I say not only through tradition but also current practices.

THE CHAIRMAN: Now Dr. Boomer has some questions to follow that up with, Mr. Stevens-Guille.

TO DR. BOOMER:

Q I am curious about the final result of that practice; in looking at Exhibit 87 on sheet No.3....

A Excuse me one minute, I have not got that, yet.

Q At the bottom of the page there is an analysis of the fuel deductions?

A Yes.

Q There is 12,000 odd m.c.f. to gas heaters, to gas gathering heaters?

A Correct.

Q And 20,000 odd to the No.3 Compressor Station?

A Yes.

Q 86,984 m.c.f. to gasoline plant vapors, would you explain that one?

A Those vapors are the hydrocarbon absorbed in the gasoline plant at the same time as the natural gasoline fractions which ultimately appear as the liquid is absorbed and then the vapors are rejected during the course of the process.

Q That is 86,000 is the volume of those vapors?

A Yes.

Q It is not fuel used?

A No, that is part; the real heading there should have been

"analysis of fuel deductions and shrinkages in gasoline plant." The next item to the vapors being shrinkage caused by the extraction of the liquid gasoline.

Q The next four items "Solution, pumps, electric light plant, No.I Compressor Station, Boiler Plant" those are fuel quantities, are they?

A That is correct.

Q Now is it not true that in getting all that fuel free there is essentially a financial contribution to the gathering of natural gasoline and the processing of the gas for natural gasoline?

A By whom.

Q By the consumer?

A Well actually on the gathering in our proposal the proportion of the costs of gathering the fuel, the vapors, shrinkage in the extraction will be born by the gasoline plant, that is the proportions that are used for the gasoline plant.

Q That is in your proposal where you share the costs in gathering between the gasoline plant and the gas business, you intend to take into account free fuel to the gasoline plant?

A That is it. That is in that computation where the analysis of the 9.54% is given in that schedule A.

MR. CHAMBERS: Exhibit 81.

THE WITNESS: M-12.

Q THE CHAIRMAN: What is the Exhibit number?

A The Exhibit number is 81, schedule M-12-D, page I, down towards the bottom on the left-hand side. The proportionate fuels are shown together with the volume of shrinkage of vapors and liquid extraction.

Q MR. CHAMBERS: That includes compressing costs too?

A Yes.

Q DR. BOOMER: True enough, you put that in there but somebody has still to pay for that gas?

A Yes, so far as the cost goes the producer is contributing the actual cost so far as the gasoline plant operations go and also so far as the scrubbing plant operations go.

Q Then why not put a price on all the fuel gas and enter it on your books?

A Well there is no doubt that would be another way of doing it.

Q Would it not be a better way of doing it?

A Well it certainly has its merits but the reason why we did not propose it was that we have taken the existing situation and carried on from there using the same type of contract with the producer as had been in existence in Turner Valley before.

Q Well the conditions which gave rise to that type of contract existed a long time ago in the natural gasoline industry,- do they still exist?

A To what conditions do you specifically refer.

Q Well I imagine that the origin of that contract lies in the period when most of the gas, most of the residue gas, was flared?

A That is I think true, that is when the contract started but as I mentioned to the Chairman just now, our information indicates that the practices still exist. All the standard contracts which we have seen still have that clause in them.

Q Admittedly so but is it good practice, apart entirely from its age and the hoary condition around it, is it good practice?

A Well I am not sure what measure of good practice you would have there. It would mean that we changed something here locally against the usages of the industry in general.

It certainly has merits to this extent that

it proportions the cost perhaps better to the user. For example the user in this case ultimately would pay the cost of the fuel used in the scrubbing plant whereas at the present time that volume of gas is paid for by the producer.

Q THE CHAIRMAN: Would it not make for more accurate accounting and eliminate the possibility of any one group saying that they were paying at the expense of another?

A I do not think it would alter the accuracy of the accounting but it would certainly eliminate the possibility of one group saying they were paying for something being used by another party.

Q DR. BOOMER: Would it not reduce your accounting analysis of the operation of your plant to a dollar and cent basis that would be truer than is the case at present when there is no figure on the fuel gas used?

A Do you refer to the cost of raising steam, for example.

Q Yes?

A Where there is no charge for the fuel.

Q Yes?

A Yes, if the comparative figure of the cost of raising steam was used it would make that figure truer to actual facts than the figure used now where there is no charge for that steam but there is no means in our accounting to have that comparison figure at the present time.

Q Well you sell steam to Royalite and do you sell some to the Valley Pipe Line?

A That is correct.

Q And the price at which you sell that steam to them does not include any item of fuel costs?

A No , that is correct.

Q But somebody, either the producer or the consumer, must be

paying for that fuel which is used by Royalite and the Valley Pipe Line, in the final analysis?

A Yes, it is correct that that is the situation.

Q Either paying or suffering a loss?

MR. BOOMER: I do not think there is anything more to follow, that is all thank you; no, one other question, I had a discussion with Mr. Kirkpatrick as to the division of costs as between gas and gasoline in the gathering lines and I suggested to him that the weight basis was just as rational as the volumetric basis, do you agree with that?

A Well since you made that suggestion, Dr. Boomer, we started to check that. The volume, as you know, is the predominant factor but the weight does enter into the line fraction which is the basis upon which we made the separation on the volumetric basis and I have not just completed that study yet, that is I have not the figures with me. I think it will have some effect but not a very large one.

(go to page 2381)

Q Would you agree from the point of view of the ultimate use of the products, the weight basis or the b.t.u. basis is more rational than the volumetric basis ?

A It does not seem to me. The ultimate use of the product is what the division should be made on. When we went into that point we considered what service was being rendered by the gas gathering system of the common carrier and we made the division on the volumetric basis or proposed to do so because the service rendered is more nearly in proportion to the volumes carried. It is either - no, let me correct myself there, not either - than the b.t.u. value but as I have just mentioned the weight does enter as a factor, a minor factor, with the volume into the friction formula and that is the point we are studying at the present moment, but with regard to the b. t. u. value that would appear to me to be more nearly akin to the realization method as uses of the residue gas and the gasoline factions is not in proportion to their b. t. u. value. For example there is no relation between the price of residue gas and the price of gasoline on a b. t. u. basis -

Q By the word "service" you mean not service to the users but the service in bringing the material to the plant ?

A That is correct. The service the gas gathering system as the common carrier has performed .

Q You do not agree that the sales realizations is essentially related to it or the weight basis or the b. t. u. as a system of division ?

A I am not disagreeing with the weight basis because weight does enter into the services performed to a minor degree. I do not agree that the b. t. u. as a measure of the service performed by the gas gathering system as a common carrier.

Q Then can you give me an opinion as to the difference in operating costs of the gas gathering line that is transmitting a gas containing no hydro-carbon heavier than propane and the gas gathering line that you handle, in other words does the presence of gasoline mean that you should have more hydrate trouble, more heaters and more operating costs in other words ?

A No it does not mean you would have more heaters or hydrate trouble because the hydrate is not related to the gasoline fraction. The water weight is there irrespective of the gasoline fraction.

Q Is it not true that hydrates form much more easily with higher hydro carbons?

A You would still have and do have in lines without gasoline content hydrate trouble.

Q To the same extent is what I am after ?

A The temperature of formation is the same or from gasoline the same for any given pressure. So you would still have to heat your gas which is what the gas gathering heater function is to the same point and keep your flowing temperature gradient up to the same point and once you do that you keep away from the hydrate trouble.

THE CHAIRMAN: But that does not answer the question, Mr. Stevens-Guille. Would the reporter read the question.

(Reporter reading) Is it not true that hydratesform much more easily with higher hydro carbons ?

A That is correct, but in relation to a gas gathering system I do not think it would reduce the amount of trouble to any appreciable degree because hydrate could still form and would form at approximately the same temperature for any line operating pressure, you would still have to heat your gas to the same flowing temperature to prevent formation of hydrate and once that has been

done your hydrate problem is largely solved.

Q DR. BOOMER: You have experience with the residue gas line from the G. & O. P. plant and from No. 3 Compressor Station and from No. 3 Compressor Station to the B. A. transmission line?

A Yes sir.

Q In the design of that line have you the same provision with regard to heaters and drips that you have in one of your north end gathering lines of equivalent pressure or equal pressure ?

A Of equivalent pressure or equal pressure, yes sir, but we have in the north end no line of equivalent pressure but we do have in Compressor Station No. 3 a suction system and do not provide any heaters on that line and we do not at the pressure it operates at have any hydrate problems.

Q That is on which line ?

A The suction system Compressor Station No. 3 which operates at the same pressure as the suction line from G. & O. P. to Compressor Station No. 3. Now with regard to the discharge line, in designing that we took into account the temperature at compression and the rate of flow through the particular size of line installed and we computed that the temperature at which the gas would arrive at the junction of the B. A. transmission line at Hartell would be above the temperature formation of hydrates and as long as the volume flowing in the line was up to the volume we had used in computing, that was the actual fact in practice.

Q That was due to heat and compression ?

A Yes, so that in that case it was unnecessary to instal heaters. Had the line been longer we would have had to instal heaters when flow in that line was low due to the small volume of residue gas available at the G. & O. P. plant. We actually

inserted in the line two connections to put a heater should hydrate formation start and start trouble in the line.

Q In other words you would provide your lines in the same manner whether or not natural gasoline -

A Following the same general principles, yes, and as an illustration of that I would recall the fact that hydrate trouble was experienced in the B. A. transmission line, which was handling residue gas at that time.

Q Oh yes, I know that, but I wish to know and I gather that you say the hydrate trouble would be no different with the gas containing natural gasoline in the case of the B. A. transmission ?

A The cost of installations you would have to instal. All the general operating conditions that would exist would be approximately the same in either case. The number of heaters installed on B. A. transmission is approximately the same as we have installed on lines carrying wet gas at something like equivalent pressure.

Q What provision is made in wet gas gathering lines for liquid condensate or liquid getting into the line ?

A In some of them there are drips installed ahead of the heaters. In some of the older lines there is no provision at all but these drips are largely put in trap out the condensed water before it enters the gas heater in which it would be revaporized and travel on down the line giving rise to the possibility of formation of hydrate farther down.

Q How much gasoline is collected from those drips ?

A Very little if any, only if a gas well has produced any further gasoline into that line or a crude well has carried over its separator.

Q You have records I suppose ?

A We do not measure the amount. It is just run into the

atmosphere.

Q The liquid collected in those drips is blown to the atmosphere ?

A Yes, a small quantity.

Q THE CHAIRMAN: Any further cross-examination ?

RE-CROSS-EXAMINED BY MR. BLANCHARD:

Q With reference to the accounting in the market sharing, Mr. Stevens-Guille, have you any idea of the annual cost that will be involved ?

A It will be rather hard to arrive at it at the present time, because naturally the incidence of work at the present time is much larger than it will be once the method has been worked out in detail and the accounting has become a routine matter.

Q Well it will require I suppose the services of at least one accountant full time ?

A Yes it will certainly require that.

Q And there will be a good deal of time also taken in obtaining the information for the accountant ?

A Oh yes, of course.

Q Daily ?

A All the charts have to be read; computed and checked and entered yes.

Q And you cannot give me any idea of what the annual cost will be ?

A Well at the present time we have two chart readers working full time. We have a full time meter man and assistant and of course a considerable amount of additional time is required in arranging or scheduling of the wells entering the system and supervising that, that scheduling is followed and finding out why on occasion it has not been followed and if any gas is flared anywhere check up why it was flared and whether or not conditions can be

changed to the point at which it can enter the system and such relative matters.

Q And no estimate has been so far made of that cost I take it ?

A No,not specifically.

Q It can be done ?

A Yes, oh yes it could be done.

(Go to Page 2387)

Q It could be done?

A Oh yes, an estimate could be made.

Q And is it taken into account in your estimates of administration costs in M-9, do you know?

A Yes. The cost of that personnel is shown in the estimates of the operating costs that are required to do it for the next five years.

Q I see. So that the costs of this accounting system for market sharing is already included in your estimates of the administration?

A That is correct.

Q Have you any suggestion to offer as to who should bear the cost of that particular branch of administration?

A No, I cannot say that I have given that any specific thought, Mr. Blanchard. It is part of the general operating costs of the whole system, as I would see it.

Q But it is really an accounting set-up for the purpose of dividing the proceeds between the various producers, proceeds of sales of gas?

A Of course some of those costs already existed before there was any question of sharing the market. The gas had to be metered at different points and the meters serviced, and the meters read, so that some of the items that we were discussing a few minutes ago are not new items.

Q But any portion of those administration costs simply involve accounting for the purpose of dividing the proceeds of sales in a market sharing scheme is an internal matter which the consumer has nothing to do with at all, you will agree with that?

A Of course that is true, but as I have mentioned just now,

that is largely one accountant's time for the whole month plus a certain proportion of supervision time. The rest of those items would exist, whether you are going to share the market or whether you were not.

Q Well, my suggestion would be that there should be some attempt to allocate costs to the accounting with respect to market sharing, subject to what the Board thinks is right for the purpose of fixing the incident of costs?

A Well that could be done if the Board directed.

Q Yes. Now then, am I correct in saying that Royalite did actually charge in its books for gas used for fuel at 2 cents a thousand cubic feet?

A The gas used for fuel in the operation of its plants?

Q Yes?

A Not to my knowledge, sir. The contract specifically gave Royalite the use of that gas.

Q Oh yes, but I mean for its own information as a bookkeeping entry to show the actual costs, for instance?

A Well they might have done it for certain purposes in the accounting division, I could not tell you.

Q You do not know?

A But from the point of view of operations in the field, no.

Q I am informed that is a fact. The result of the producer supplying fuel may be that a producer in the North end, that the producers sending their gas to one plant may furnish a good deal less free gas than a producer sending to another plant, depending on how much gas is used in the operations of the absorption plant?

A Yes, that is so.

Q For instance, one plant uses or loses in the absorption operations 20% as against the other plant's 10, and the

producer serving the plant losing the greater amount of gas will be penalized to that extent.

A Yes, that would be correct.

Q So that from that standpoint it might be more equitable to have the gas paid for that is used in plant operations.

A Yes sir, I think that is correct from that standpoint.

Q And it might be an incentive to more economical operations in the plant?

A Under those conditions I think it certainly would.

Q Yes. I do not think I have any more.

.....

RE-EXAMINATION BY MR. CHAMBERS

Q Mr.Stevens-Guille, am I right in this, that at least the capital costs, and by capital costs I mean the original investment and the depreciation that would take place from year to year, and the rate of return on the gathering and compressing systems are largely affected by the quantity of the product that is handled?

A That is so, Mr. Chambers, and is, of course, the reason why we selected the volumetric method for the division.

Q And the question of the fixing of a price for plant fuel and vapours and so on, I think you told us it was more or less standard practice throughout the United States?

A That is according to our information and is definitely shown in such standard contracts as we have copies of.

Q Now, as I understand it there is the National Gas Association of the United States?

A Natural Gasoline Association of America.

Q Natural Gasoline Association of America, and that is an association comprising most of the gasoline companies throughout the United States?

A That is correct. Not throughout the United States. It is centred at Tulsa and the California Gasoline plants belong to the California Natural Gasoline Association.

Q And in setting up the contract here, as I understand it, your organization made actual studies of and obtained copies of the various contracts used by this Natural Gasoline Associations in the States?

A That is so, being one of the Natural Gasoline Associations itself and ones of some other individual companies.

Q And the Madison Company in making these contracts that are formulated in these contracts that is known as M-16, actually made a study of those various contracts in the United States?

A Yes, that is correct.

Q I am suggesting to you this, Mr. Stevens-Guille, that the furnishing of the gas by the producer for fuel and shrinkage in the absorption plant, is a factor that should be considered in the revising of the contract as between the absorption plant and the producer.

A Yes, I think it enters into that very definitely.

Q And I think you told my learned friend, Mr. Blanchard, that you agreed with him that the question of the efficiency of the plant was probably one reason why a price should be fixed or might be fixed for the fuel used, am I right in that?

A Yes, that is correct.

Q Now as I understand it, that, we will take the Royalite plant, that all the wet gas which is handled by the Madison system

is treated in the Royalite absorption plant and in no other abrorption plant?

A That is correct.

Q And that the amounts of fuels and vapours consumed in the Royalite absorption plant are, as far as you know, prorated as between all the producers who ship or whose wet product goes to the Royalite plant?

A That is the system that is followed in the accounting.

Q I am going to suggest this to you, that, assuming there are two or three plants or more in the Turner Valley field, that extract gasoline, and that one is more efficient than the other in the sense that one uses less vapours, if that situation existed and you average the use throughout the entire Turner Valley system, the effect would be that the producer who has the contract at the more efficient plant would be, in the result, contributing some of the gas that was used in the less efficient plant?

A If we pool the use of fuel to several plants?

Q If you pooled the average rate, if you made the rate average, Mr.Stevens-Guille. For instance, one plant uses 15% and another 20%, and the Board or somebody who has authority will say, we will make it 17% over the whole field, or over all three plants, that is the standard we will allow?

A They will allow that much fuel to be used free of cost?

Q Yes, that they will allow that much and that the rest of it will be absorbed by the industry. I am suggesting to you if that were done the producer that is connected to the more efficient plant is in effect bearing part of the cost of supplying fuel gas to the less efficient plant?

A I am not quite certain that I have got clearly the statement you are suggesting.

Q What I am getting at is this, assume that the Board says, now there is going to be a certain quantity of fuel used in this absorption plant, they try to estimate what the actual is, and in this plant there is going to be a certain quantity, and in the third plant another quantity, and that we will, instead of having each producer connected to the specific plant supply that fuel, we will pool it over the entire field, my suggestion that a scheme like that mitigates or tends to reduce that which happens to be connected to the more efficient plant.

A Yes, I think it would.

(Go to Page 2393.).

Q And in order to get clearly on the record the present situation about this fuel gas as compared with the Absorption Plant and the Scrubbing Plant, would you just see if I am correct in these assumptions? Under the set-up as we have it now the Absorption Plant pays the gathering and compression costs on the actual volume that disappears or is used up in the Absorption Plant, is that right?

A That is correct, that volume consisting of shrinkage to plant vapours, liquid gasoline extraction and the proportionate amount of fuel used to operate that Plant.

Q Now then, as regards the fuel used in the Scrubber, is it not a fact that the producer is furnishing that gas, fuel free?

A That is correct.

Q But the cost of gathering and compressing that gas is charged against the operation of the utility and indirectly to the consumer, is that correct?

A That is correct.

Q And if gas was not going to the Calgary market or some other market, domestic market, you would not need a Scrubber in Turner Valley at all?

A No.

Q Adverting now to one or two questions that were asked yesterday in cross-examination. The question of blow-downs and pull-downs was mentioned. I think that during the evidence on reserves, Mr. Gordon Connell told us what they meant, both of those terms meant. Would you just tell us briefly again?

A Yes, he defined them for us and I asked him to actually look up the reference which is in Volume 13 of the transcript at page 1063. I will read the actual definition

he gave. "As a general rule we consider a pull down is when a well is pulled down through the separators or through the flares while a blowdown is when a well is blocked down and the separator is by-passed and all production goes straight out to the flare." Those definitions are of course purely local in Turner Valley. That is why I think it is important to use the same words in defining them again.

Q During the cross-examination yesterday the matter of blowdowns and pull-downs in connection with the gas cap was discussed. Now am I right in this that blowdowns in gas cap wells are not in practice as great as in the case of crude wells?

A Yes, that is generally true.

Q And to the extent that gas is flared due to blowdowns or pull-downs in the actual operation of the Royalite gas cap wells, do you or do you not think that that should be deducted from the gas cap Allowable for the month?

A Yes, I think it should be deducted. As a matter of record we have not done so up to the present time. But I would like to confirm the figure I gave yesterday. I estimated the quantity of pulldowns and blowdowns of gas cap wells. I gave from memory then that for last winter, no the year 1944 it was estimated at 9/10ths of 1 per cent. I have checked that figure since yesterday and that is correct.

Q MR. McDONALD: That was actual blowdowns?

A The estimated volume in actual blowdowns.

Q Of wells in operation?

A Of wells in operation. 9/10ths of 1 per cent of the total volume those wells produced.

Q DR. BOOMER: You said volume produced and not volume allowed?

A No, volume produced.

Q MR. CHAMBERS: Mr. Stevens- Guille, you are familiar with the general plan that has been proposed for repressuring and for conserving gas?

A Yes sir.

Q And it is suggested that Royalite buy the conserved gas and supply its share of the market and also buy the repressured gas and put it into the formation at some price which this Board wiol determine and from that point on that under the suggested proposal the responsibility is Royalite's?

A That is correct.

Q And that would involve Royalite assuming paying for and furnishing the storage area and operating the storage area?

A That is so.

Q And that gas which is repressured, as well as that gas which is retained in the ground due to conserving the gas, being purchased from the crude oil producers would probably involve an operation of 12 years or somewhere in that vicinity?

A Yes, something of that order according to the market's size.

Q And it is also proposed or taken for granted that Royalite should pay and absorb any additional operating costs incurred by keeping its gas cap wells ready to operate whenever required, day and night, winter and summer?

A That is so, yes. The proposal does not provide any scheme for reimbursing Royalite.

Q And as far as you know there is nothing for these items included in the Medison case that has been presented here?

A Definitely not.

Q I think it has already been brought out, but you tell me this. As I understand it, Royalite is also to assume the risk, if there is a risk, of ever recovering from the formation the gas which it purchases and repressures.

A That is so.

Q Now as I understand the conserved gas proposition, it is this, that in order to save the installation of additional repressuring equipment, it is proposed that Royalite should purchase the excess crude oil gas to supply its current position in the market with respect to its gas cap.

A That is right.

Q If Royalite had to produce its share of gas cap gas it would have realized therefrom and been able to sell in the meantime the gasoline content.

A That is correct.

Q Now what is the situation to the extent that it buys conserved gas?

A The gasoline content of the gas that is conserved, not being produced, brings to Royalite no revenue currently so that the revenue on that volume of gas is deferred for the number of years in the order of 12 before that conserved gas will be actually produced.

Q And of course the Absorption Plant has that much less product to handle too.

A Currently it handles that less volume of product.

Q True it is contemplated that ultimately . . . . .

A And the current operating costs do not benefit by that additional volume.

Q So far as you know, Royalite is not suggesting, or there is

not set up in this scheme any allowance for compensation to Royalite for those items?

A No, there is no compensation suggested.

Q Now Mr. Stevens-Guille, as I understand it, I think we mentioned it probably in the opening of the Examination, that the Madison plan for the sharing of the market is predicated first of all upon the amount of the gas that can be legally produced and if a man wants to produce it.

A That is correct.

Q And secondly, it is the portion of that gas which he can legally produce that is in fact available for the market when and if required.

A That is correct.

Q Is that the whole plan in a nutshell?

A Yes, I think that covers it up closely.

Q As I understand it the only gas which can be legally produced in Turner Valley depends solely upon the Orders of the Conservation Board.

A That is so.

Q And in your plan, you advocate or assume that the gas that is flared anywhere in Turner Valley is not in fact available for the market?

A That is correct.

Q And that therefore it should not be considered in the sharing system?

A That is the way we look at it.

Q That is all, thanks.

Q DR. BOOMER: Mr. Stevens-Guille, I failed to follow your discussion on conserved gas and repressured gas just now. I want you to correct me if I am wrong. As I understand it with respect to conserved gas, you in effect,

or let us say Royalite, in effect, will be buying that conserved gas at a price to be fixed by the Board, but currently around ½ a cent is it?

A Yes, that is at the present tentative price of 2 cents for wellhead gas on a residue basis.

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Q And when you do that you are in effect buying gas cap gas at the current value of its future worth in the gas market?

A The residue portion of the gas cap gas, yes.

Q And in so doing you are getting or retaining in your gas cap, gas containing relatively much more natural gasoline than the crude oil gas that went to market?

A Yes.

Q And I should think that the trade, so to speak, will at least take care of any risk to Royalite in holding that gas?

A But the present view only deals with the residue portion of the gas.

Q Pardon?

A It is only of the residue portion of the gas. The point Mr. Chambers was making, as I understood him, was that due to this scheme the volume of gas processed through, the Royalite gasoline plant has produced that amount, therefore the net revenue currently to the Royalite gasoline plant is decreased proportionately and that amount of money.....

Q You mean.....

A The revenue has been postponed.

Q You mean the throughput of the absorption plant has been reduced because of the elimination of the flare?

A No. By eliminating the amount of gas that would have been processed had Royalite produced currently its full allowable from its gas cap wells for its full share of the market.

Q It is true Royalite does not produce its market share but they do so in effect by buying other peoples' surplus for half a cent?

A As far as their share goes, yes, but as far as their throughput of the gasoline plant gas no, because that gas does not go through their gasoline plant.

Q The throughput of your gasoline plant can never be, must be either the market demand or the crude gas production, it can be no other?

A But the proposal that Mr. Chambers took me through as I understood it, was this, supposing that Royalite, instead of entering into this conserved gas arrangement, had claimed its right to produce its full share of the market from the gas cap currently, there would be a larger throughput through its gasoline plant and a larger current revenue. So much capital has been invested now in the gas cap well and the gasoline plant and the return on that capital is obtained from revenue from the gasoline plant. That revenue will not be obtained currently but deferred for a number of years in all respects, namely that amount of money.

Q I do not understand how you can have a bigger throughput through your No.I Plant than you have right now?

A Because if Royalite was to produce its full share of the market from the gas cap wells it would mean additional compressors would have to be installed to return the additional quantity of excess gas, to market requirements, to the formation.

Q That is to say you would use more, you will put as much through your gasoline plant as you ever put through it?

A No Sir.

Q Is that not right?

A No Sir, the fact that the market is being shared has reduced the throughput through Royalite gasoline plant in proportion to the amount of gas delivered to the market by the other plants; that displaces Royalite gas cap gas through the gasoline plant.

Q Yes, but I am afraid that we are talking at cross purposes. You get, in effect, in dollars and cents, you get credit for that in buying conserved gas at a half a cent?

A But not for the gasoline content because the gasoline content does not enter into the proposition at all.

Let me explain it another way, in December before sharing the market had started all the gas that went to the market passed through the Royalite gasoline plant. From that time on approximately one fifth of the market was being supplied by the other two plants, and it follows that the throughput through the Royalite gasoline plant has been reduced that one fifth. You stated just now that the Royalite is processing in its gasoline plant as much now as it ever did and I say "no", for that reason.

Q No, I agree there. I was not thinking of Royalite. I was thinking of you?

A Oh, Madison is passing the same amount through the scrubbing plant, yes.

Q And you are purchasing gas at half a cent and selling it to Royalite for half a cent?

A That is correct.

Q But there is no actual transfer of gas, you keep the gas in the gas cap in the first place?

A That is right.

Q And that gas is a very much richer gas than the gas which has been processed?

A That is actually so.

Q Which is a credit to Royalite, that is a gain to Royalite?

A I cannot see the gain to Royalite. It owned that gasoline content before and it still owns it. It does not gain anything by that transaction of gasoline content.

DR. BOOMER: That is all thank you.

THE CHAIRMAN: Mr. McDonald?

TO MR. MCDONALD:

Q Just one question, Mr. Stevens-Guille, as I understand the proposal of sharing the market as now setforth, if the gas is sold say by the producers in the B.A. area to the B.A. plant, to the Absorption plant, for use as fuel, that would be a local sale just like selling for drilling fuel at the south end?

A You say the proposal is now set forth.

Q Is now set forth, the proposal is now set forth?

A Well the proposal as now set forth does not take into account any sale of that.

Q But if it was sold it would be a local sale in the summer time?

A Well that depends upon what they suggest, if they suggest that it would be that way, but it certainly is not contained in the proposal at the moment.

Q In the proposal as it is now, it is given by the producers, it is given away under the terms of the absorption plant contract?

A That is right.

Q But if it was sold it would be treated as a local sale?

A Well of course that would depend upon circumstances.

Q Is there any reason in your view now that it should be treated otherwise than as a local sale in that area, just like drilling fuel is treated as a local sale?

A No. I think if a charge is made for fuel to a plant it should be made as a local charge to the particular plant, as you suggest.

MR. MCDONALD: That is all, thank you.

THE CHAIRMAN: Mr. Fenerty?

TO MR. FENERTY:

Q Mr. Stevens-Guille, in reference to these Natural Gasoline Associations contracts, you told my learned friend Mr. Chambers that

they had been studied with some care before this other setup was produced?

A Yes.

Q And are those some standard form of contract which the association has?

A Yes.

Q And they were followed, were they?

A Not in their entirety, no.

Q I noticed you said you studied them?

A Yes.

Q But you did not follow them entirely. Now will you tell us, - does anything come to your mind, any principle points of variation at the moment?

A At the moment no, Mr. Fenerty. It is a matter of some 18 months since I saw one and I just have not got them clearly in my mind.

Q I want to ask one specific thing, did you find in those contracts that wet gas gathering lines leading from wells to absorption plants were put beyond the control both of the operators of the wells and the absorption plants, is that standard practice?

A I do not think that point is covered in the contract.

Q Was there not some division of assets between the dry gas and the gasoline industry, in those contracts?

A You mean referring to the pipes and so on.

Q I mean you have in these contracts, I assume you have one company handling dry gas and another company handling the wet gas, the gasoline, do you not?

A No, the contract does not specifically state that.

Q Is it fair to say you never heard of that until you had this set-up here?

A Oh no, Mr. Fenerty, there are several set-ups.

Q Now you have a separate company handling dry gas...

A There are several set-ups.

Q And another company handling wet gas?

A Yes.

Q In this Natural Gasoline Association contract...

A Well I said that contract does not specifically go into a case like that.

Q I see. All right? Then when you studied those contracts of the Association which you followed in some respects and not in others, did you have contracts providing for that set-up to study?

A No I never saw one.

Q No. I see and is itthe fact then that these contracts you referred to provided for the handling of wet gas, for the handling of the gasoline and the residue gas through that operation by the one company?

A Yes, that is the way the contracts are.

Q The contracts you have been studying were,- treated this as a gasoline operation with a residue product of dry gas, is that right?

A That is correct.

Q Yes, and as a result of studying those contracts you come up with a dry gas operation with a residue product of gasoline, do you not, or is that your idea of what you have evolved?

A We had to consider further details than that contract covered.

Q Yes?

A Certainly.

Q And is it fair to say then that as a study of these contracts you have come up with something which is just the reverse of the way they handle them?

A I do not think so.

Q Well you have told me now that they handled them as a wet gas and gasoline operation with a residue of dry gas, you told me that?

A That is correct.

Q And you think that your set-up handles it the same way, do you?

A No, there are definitely different aspects, Mr. Fenerty.

MR. FENERTY: Thank you.

TO THE CHAIRMAN:

Q Mr. Stevens-Guille, turning to the standard contracts of the California Natural Gasoline Association and the National I think you said?

A The Natural Gasoline Association of America, N.G.A.A.

Q Yes. Would it be fair to assume that your existing standard contract is based upon those contracts which were evolved in the United States?

A That is the one that existed at the time.

Q Prior to.....

A Prior to this act.

Q To the enactment of the Natural Gas Utilities Act?

A That was it largely. It had certain different aspects but it had been drawn up using that contract as a general basis.

Q And including this provision for free fuel?

A Yes.

Q When you adopted that contract or when Royalite adopted that contract in Turner Valley will you tell me if you can if the producers were called in to sit around the table and discuss the terms of the contract which you proposed to adopt or did your Company tender these contracts already drawn on a "take it

or leave it" basis?

A I cannot to my knowledge answer whether there were discussions before the contract was drawn with some of the producers or not, Mr. Chairman. I do know that the contracts already drawn were offered to some producers.

Q On a "take it or leave it basis"?

A Now there again I would only be assuming what was said because I was not there at the time.

(Go to page 2407)

Q One or two questions arising out of this Natural Gasoline Association of America contract. Will you look at this contract and tell me if this casing head gasoline contract is what you are referring to. Is that the standard form of contract ?

A That is one standard form produced by the Natural Gasoline Association of America, but it is dated 1932, and I do not think it is the actual one we used. I think we had a revision of that and I would not be sure of it without looking at it. It is as I say eighteen months since I saw the contract and I am speaking from memory.

Q For present purposes I would like to put this in.

STANDARD CONTRACT NOW PRODUCED OF THE N. G. A. A. 1932, MARKED EXHIBIT 92.

MR. HARVIE: Would you give us the outline details of the contract ?

MR. BLANCHARD: It is called, Casing Head Gas Contract, Standard Form Revised, Adopted by Natural Gasoline Association of America, November 7th, 1932.

Q Now under this form of contract it is assumed that the absorption plant operator has a line installed to take the casing head gas from the separator or the well ?

A That is correct.

Q That is correct. So the absorption plant operator has installed a line ?

A That is correct.

Q For the purpose of getting casing head gas to his plant for the purpose of extracting the gasoline from it ?

A That is correct.

Q And then it says in paragraph 5 of this:- "The buyer, that is the absorption plant operator, shall return to the nearest boundary line of the sellers lease sufficient residue gas for

the development and operation of the said lease, the amount of such gas not to exceed that remaining from the quantity of casing head gasoline delivered to the buyer in the said lease after the extraction of gasoline therefrom."

So that involved a return line from the gasoline plant to the lease ?

A That is correct.

Q And in consideration of the delivery of that casing head gas then the absorption plant operator would lay his lines, take the gas to his plant, return such casing head gas, at least such residue gas, as was required to the lease and the consideration that the seller of the gas gets is 20% of the sale price of the natural gas ?

A Is it not in that contract 20% .

Q Well it depends. The contract here says, when the gasoline content is less than .75 gallons per thousand cubic feet and when the average price is six cents per gallon or more, 20% of the value. So that the consideration was 20% for that G.P.M. gas and the absorption plant operator had to do all the things I have mentioned ?

A Yes.

Q Then if there was any market for residue gas this contract provides that the seller of the casing head gas shall be entitled to 50% of the net proceeds of the sale of that residue gas ?

A Yes.

Q Is that in the contract now in any way ?

A No sir. You mean in the copy we used of the N.G.A.A. or in our own proposal ?

Q I mean in the contracts that were made between Royalite and -

A No sir.

Q There was no such provision ?

A There was a provision but not a provision of 50% of the proceeds.

Q But in all of the contracts made by Royalite with all the producers, then so far as I have gone, leaving out the question of sales of residue gas, so far as I have gone that contract was followed in all those respects ?

A Yes.

Q And the difference now -

A No, just one moment Mr. Blanchard. You say that Royalite followed that one in all the points you have enumerated.

Q That is to say it was to gather the gas and after processing it return such fuel as was required ?

A No, I do not think there were any contracts of that nature signed. One actually was drafted at one time but no contract that I know of was signed actually, stating that the gas would be piped back to the lease from which it came, that is the residue gas.

Q Then Royalite was not giving as much in their contract as in the standard form of contract to that extent of not returning fuel ?

A That is true to that extent.

Q It saved that much as compared with the standard form of contract. And the difference now in the set up is simply this, that Royalite gets gas for extraction purposes and it does not have to pay the total cost of gathering that gas and bringing it to its plant. It only pays a percentage on a volume basis ?

A Well there is another difference you have not mentioned Mr. Blanchard.

Q Yes.

A That is one of the differences.

Q And what else ?

A There is another difference and that is that the Royalite does

not handle the full business now as it did then. The gas part of the business is divorced from the gasoline part of the business.

Q That is true, but under the arrangements between Royalite and producers before the producers did not have any interest in the gas part of the business either ?

A No, the producer was paid for his gas sold to the market.

Q If any was sold ?

A If any was sold, but a large quantity was sold.

Q But take producers whose gas was not sold to the market at all. Take producers who were dealing with the No. 2 plant. None of that went to market, none of the gas ?

A Not to the Calgary market. Some of it went to local markets.

Q A very infinitesimal quantity ?

A A very limited quantity.

Q So it can be left out of consideration of what we are considering now in the No. 2 plant anyhow ?

A Yes.

Q Now in order to get gas to extract gasoline from it, the absorption plant we will say No. 2 plant, is prepared to transmit all that gas to the plant free of charge to the producers and would then give him 20% of the net sales.

A Yes, but there is an important point there Mr. Blanchard. That a gasoline plant to be profitable has got to deal with either very wet gas which does not exist in Turner Valley today, that is with a high gasoline content. You will notice in that standard contract the lowest gasoline content that they mention is .75 gallons per thousand. Now the Turner Valley gas that is being processed down at gasoline plant No. 2 and at certain periods at gasoline plant No. 1 is down to the order of a quarter

of a gallon comparatively lean gas. To be able to make the gasoline plant profitable on as lean a gas as that, a large volume has got to be handled. When gasoline plant No. 2 was installed such a large volume was available.

Q Of lean gas ?

A Yes, lean gas, but in the order of 75 million cubic feet per day. The conservation measures reduced that down to something of the order of 15 million cubic feet per day and that made that operation as a unit operation unprofitable. Now the same thing applies at Royalite gasoline plant No. 1. Unless the load is sufficient the operation of that plant as a unit operation can become an unprofitable one. And at the time you mentioned when some of the gas did not go to the market the load on the plant was increased to the point where the gasoline plant operation could be in the realm of being a profitable one and at the time this Company under regulation, the through-put of course, is down considerably over the days you are referring to when something like one hundred million passed through the plant.

Q The gas is richer ?

A No sir. Today the actual value of the wet gas entering the gasoline plant is again leaner because a proportion from crude oil wells is up because the withdrawals from the gas cap have been cut down and also because the number of crude oil wells connected has increased. In dealing with gasoline plant operations and contracts of that nature, this point must be taken into account and that is why variations were made from the standard contract on some of those points.

Q Then what I am really trying to get at is this. We were dealing with the share of costs, that should be borne by the absorption plant. My point was simply this, for a consideration and such

remarks that you may desire to make that whereas formerly the Royalite bore the whole cost of operating transmission, compressors, etc., to bring gas into this gasoline plant, now it is only paying approximately 10%.

A That is true if you will also add that when Royalite was bearing the full cost it was running as a unit operation the two businesses.

Q Gas as well, and your suggestion then would be that Royalite would never have entered contracts to bring gas to its gasoline station if it had not a market for the residue gas ?

A I think that is probably true.

Q You think that is so ?

A I think that is so.

(At this point a short adjournment was taken)

(Go to Page 2413)

RE-EXAMINATION BY MR. CHAMBERS.

Q If the Board please, I have one or two questions I would like to ask arising out of the discussion just before we rose.

THE CHAIRMAN: Mr. Stevens-Guille is a very patient man, so that you can go ahead and do so.

WITNESS: It is the only time I have ever had that said of me.

Q MR. CHAMBERS: I am showing you Sheet 1 of Exhibit 87?

A Correct.

Q There is a column headed "GPM"?

A No. 4?

Q Yes, Column No. 4, and it starts off with Alberta Oil Incomes 1, GPM 0.08, and on this sheet about two-thirds of it is comprised of a list of wells?

A That is the crude oil wells.

Q They are crude oil wells?

A Yes.

Q This column here, Column 4, shows the GPM. By the way, what does GPM stand for?

A Gallons per thousand cubic feet.

Q And that column shows the gallons per thousand cubic feet of wet content in the crude gas?

A That is correct.

Q From those wells?

A Yes.

Q Now if we go down to the next section on the sheet, Sheet 1 of Exhibit 87, there is another list of wells, Anglo Tank Farm 3, Calmont A, and so on down to West Pete. Are those gas cap wells?

A No, those are also crude oil wells with certain exceptions. That one well, Model Battery 1, is classified by the Conservation Board as a gas cap well.

Q And the last section of the sheet is headed "Gas Cap Gas"?

A That is correct.

Q Now that is the Royalite gas cap?

A Yes, that is the Royalite gas cap, and starts with Foothills No. 2 at the top of the list.

Q And in Column 4 it shows the gasoline per thousand cubic feet content?

A That is correct.

Q And those figures are higher than the figures opposite the crude wells?

A Yes, in general. In one or two instances that is not true.

Q And that is so because in effect the gasoline content of the gas cap gas is higher than the crude oil gas?

A In general that is a correct statement.

Q Now I do not propose to go into the details of the contract, Exhibit 92, that Mr. Blanchard put in, but there is just one question I want to put to Mr. Stevens-Guille. I am informed that the basis of settlement under Exhibit 92 is based on the charcoal tests, is that right?

A Well, I have not seen it in there so that I cannot say yes or no.

THE CHAIRMAN: I think Mr. Blanchard's questions on that contract were allocated more to the question of costs than to the end result, is that right, Mr. Blanchard?

MR. CHAMBERS: Yes, but there was some implication that the producer.....

THE CHAIRMAN: All I am trying to avoid, Mr. Chambers, - I know it is difficult to keep the different

phases of the Hearing in water tight compartments.....

MR. CHAMBERS: I just want to show one or two considerations. I am not going to go into all of them.

A THE WITNESS: Under Clause 8, Settlement Tests, "The gasoline content shall be determined by a field compression test made in accordance with the official code of the Natural Gasoline Association of America for testing natural gas for gasoline content." This one, Mr. Chambers, does not seem to give the alternative method of testing by charcoal, but some of the other editions of this contract did do so.

Q Here is another.

THE CHAIRMAN: Better get that one in too.

Q It is the same edition, Mr. Chairman.

MR. CHAMBERS: I will withdraw the question and deal with it later.

This copy of the contract did not have that alternative regarding the charcoal tests.

MR.BLANCHARD: I have two here that have.

MR. CHAMBERS: I am quite content to deal with it at the other phase of the hearing.

MR. BLANCHARD: It is at the seller's option.

WITNESS: Is that typed in?

MR.BLANCHARD: Yes.

MR. CHAMBERS: It is typed in this original contract here.

WITNESS: But it is not printed in its original form.

MR. BLANCHARD: It is at the seller's option.

MR. CHAMBERS: Have you any objection, Mr. Blanchard, to marking this one so as to have it on the record?

MR. BLANCHARD: No.

THE CHAIRMAN: That will be Exhibit 93.

REVISED FORM OF CONTRACT ADOPTED BY NATURAL GASOLINE ASSOCIATION OF AMERICA MARKED EXHIBIT 93.

MR. CHAMBERS: They speak for themselves and I will deal with it later.

THE CHAIRMAN: Could it be described as an amended copy of the contract?

A It is marked at the top, but that is the standard form of contract used.

MR. BLANCHARD: I might say that there is a similar one for use in the Burbank field, and a similar one for use in the K.M.A. field. That is with respect to the seller's option.

Q MR. HARVIE: Which field is the last one for, that last exhibit?

A The West Edmond Pool.

THE CHAIRMAN: Any further cross-examination? Thank you, very much, Mr. Stevens-Guille. Mr. McDonald, you have a motion?

MR. BLANCHARD: May I ask one other question? Some reference was made to repressured gas. I do not know that this has anything to do, sir, with the market sharing. Possibly I had better postpone it until Mr. Stevens-Guille comes back.

MR. McDONALD: I have an extra copy of the Notice of Motion. Mr.Chairman, this notice of motion is on behalf of the Producers' Committee and it is for the purpose of obtaining an order of this Board directing the Canadian Western Natural Gas, Light, Heat & Power Company Limited to produce for the inspection of myself and the other parties in the

proceedings in this Inquiry the books and records of the Company, the books and records in the possession and custody or under its control, relating to the matters in issue in the Inquiry, and I have particular reference to the Balance Sheets of the Company for the years 1939 to 1944 inclusive, and the Profit and Loss Account of the Company for the years 1939 to 1944 inclusive; the statements of gas sales by the Company by classifications, domestic, commercial and industrial, from 1932 to 1944 inclusive; and the statement of revenue from gas sales in domestic, commercial and industrial classifications for the same years; and then a statement of operating expenses for the years 1932 to 1944 inclusive.

THE CHAIRMAN: You took the year 1932, I suppose, because it follows the last occasion on which a rate base was fixed for the Calgary Gas Company?

MR. McDONALD: Yes. As I read the judgment of the Public Utilities Commissioners following the 1931 investigation, a rate base was set up which really would come into operation in 1932, and I would like to have particulars of that rate base and the particulars of the annual additions to capital, the earnings and amortization taken in each year, the rate of return from 1932 to 1944 inclusive. Now I have been informed by Mr. Steer, who represents the Gas Company here, that the Gas Company are adverse to placing this information before us, and with that in mind I would like to review the provisions of the Natural Gas Utilities Act which are applicable to my application. I have two copies of the Act here.

Now it is my submission, Mr. Chairman, first that the Gas Company is within the jurisdiction of this Board and are also bound by any Order issued on my application; and, secondly, that the Board, having jurisdiction, has ample

authority under this Act to make the direction that I am requesting. I will deal with the question of the merits whether that information is relevant to this Inquiry after I have dealt with the question of the jurisdiction.

I think if we take the Act, we will find in the amendment to the Act in 1945, Paragraph 2(h), that a pipe line is defined as including any pipe line used for the transporting of gas from any field or area where such gas is produced to or through any municipality but excluding any distribution system used for the distribution of any such gas to the consumers in any such municipality. That is part of the long definition of a pipe line.

(Go to Page 2419.).

Now turning to (k) of Section 1, "Public Utility means, - (i) any pipe line as defined in paragraph (h) of this section." Then there is an inclusive clause, "any well, any system, and works, and plant, any equipment or service used for the purpose of, or in connection with, or incidental to the production, transportation, purifying, drying, scrubbing, compressing or repressuring natural gas." There is ample evidence before the Board that the Gas Company is transporting natural gas. Again within the general definition of Item 3 in addition a pipe line is defined under Item 1.

Then we turn to Section 18 of the Act which deals with the jurisdiction and powers of this Board. "The Board shall have exclusive power and jurisdiction to deal with all public utilities as defined by this Act and the proprietors thereof and subject to the provisions hereof." I am impressed now with the last words of that section "and subject to the provisions hereof". It therefore follows that we should search this Act and find out whether there is any provision which may exclude the Gas Company and I find that there is a reference in this Act to a company which delivers gas to the ultimate consumer in, I think, six places. The first is under section 50. Now section 50 deals in the operative part by stating that "the Board, either upon its own initiative or upon complaint in writing, shall have power by order in writing made, after notice to and hearing of the parties interested, -

(a) to fix just and reasonable rates, charges, or schedules thereof which shall be imposed, observed and followed thereafter by any proprietor;"

Then the Act goes on, (b) and (c) with the details of the fixing of rates. In sub-section 2, however, there is this provision, "Nothing in this or the preceding section contained shall limit or restrict the jurisdiction of the Board of Public Utility Commissioners constituted pursuant to the provisions of The Public Utilities Act, chapter 28 of the Revised Statutes of Alberta, 1942, to fix the rates to be charged by public utilities for the supply of natural gas to the ultimate consumer."

Now by way of comment, I might point out there is a rather particular wording to that section. It in fact does not deal with the jurisdiction of this Board at all but it simply says that the jurisdiction of the Public Utility Commissioners remains as stated in the Act governing Public Utility Commissioners, to fix the rates to be charged by public utilities for the supply of natural gas to the ultimate consumer. It may be argued that this Board might have concurrent jurisdiction with the Public Utility Commissioners under that section.

THE CHAIRMAN: Yes, it may be argued, Mr. McDonald.

MR. McDONALD: I am not going to argue it, I can assure you. It is not restrictive as to the jurisdiction of this Board. It simply limits the authority that the Board had prior to the passing of this Act. I think that is important in looking at the powers that this Board has.

The next reference is section 52 and sub-section 2. Section 52 is headed "Restriction on Powers of Proprietors of Public Utilities.". The section provides that "No proprietor of a public utility shall (a) make, impose or exact any unjust or unreasonable,

"unjustly discriminatory or unduly preferential individual or joint rate,"

and deals with classifications; deals with unfair practices and preferences, and then in paragraphs (e), (f) and (g) deals with the matter of capitalization, authority to issue bonds, capitalization of assets and the sale of assets.

Then we find sub-section 2. "The provisions of paragraphs (e) and (g) of sub-section (1) shall not apply to proprietors of public utilities supplying natural gas to the ultimate consumer."

I think it is significant in regard to this section that sub-section 2 restricting the authority of this Board deals only with paragraphs e, f and g insofar as the proprietor delivering to the ultimate consumer. That is purely a financial matter.

THE CHAIRMAN: Did you mention (f), Mr. McDonald?

MR. McDONALD: (e), (f) and (g).

THE CHAIRMAN: No, (e) and (g).

MR. McDONALD: I am sorry, it is (e) and (g).

THE CHAIRMAN: This Board still has the power under (f).

MR. McDONALD: Yes. That, I think, increases the force of my argument, that is to the matter of capitalization.

THE CHAIRMAN: At least it makes it more accurate.

MR. McDONALD: Yes, and I think it also increases the force of it too because that brings right within the jurisdiction of this Board capitalization and dealing with annual charges which are matters which I am asking information on.

The next reference is in section 67. Section 67, sub-section (1) is the section in this Act which

declares null and void certain types of contracts and without reading the whole section it is to be observed that the section applies to every contract made between the owner or operator of any scrubbing plant and any person, firm or corporation supplying natural gas whether by wholesale or by retail to the ultimate consumer thereof which restricts or reserves to the owner or operator of such scrubbing plant the exclusive right to supply natural gas to such person, firm or corporation as and from the date of the coming into force of this Act.

THE CHAIRMAN: Surely that is a declaratory provision only, Mr. McDonald, from which you cannot derive any jurisdictional argument.

MR. McDONALD: That would be so if that were the only provision in the section. We go on to sub-section 2. "Notwithstanding the terms of subsection (1) the Board is hereby authorized and directed forthwith upon the coming into force of this Act to consider and review and from time to time to consider and review all of the terms, conditions and provisions of every contract or arrangement between whatever parties made in any way relating to the transportation, processing, purifying, selling, purchasing, storing and/or otherwise dealing with natural gas and shall have power by order to approve, amend, alter, vary or nullify any or all terms of such contracts or arrangements; provided that no such approval, alteration or variation shall confer upon any party to any such contract or arrangement any exclusive right of the kind referred to in subsection (1)." I think that is a mandatory direction to this Board to deal with the contract which has

already been offered in evidence, that exists between the Madison Company and the Gas Company. In order to deal with that contract and review it, it is necessary to bring before the Board not only all the information relative to the operations of the Madison Company but also similar relative financial information as to the operation of the Gas Company.

There is, however, a restriction in subsection 4. "The provisions of this section shall not apply to franchises conferred by statute, nor to contracts or arrangements whether by agreement, written or oral or entered into pursuant to any statute in so far as such contract or arrangement relates to the supply or distribution of natural gas by wholesale or retail within the confines of any municipality and made between any municipal corporation and any person, firm or corporation supplying natural gas to the ultimate consumer whether by wholesale or by retail but the provisions of this section shall apply outside the confines of such municipality to all such franchises, contracts or arrangements and to all such persons, firms or corporations other than municipal corporations in this subsection referred to."

That provision, I submit, deals only with the contract between the Gas Company and the municipality but it does not have any reference at all to the contract between the Gas Company and the Madison or any other commercial or any other type of organization, and does not in any way limit the jurisdiction of this Board. There are two further references. Then we come to Section 72, which I submit is the section under which this hearing is now being conducted. The purpose of this

hearing is to fix just and reasonable price or prices. We find in subsection (c) of section 1, "Notwithstanding the terms of any contract, the Board shall fix and determine . . . .". Now that has been amended.

MR. STEER: The amendment does not have any particular bearing.

MR. CHAMBERS: Here is the Act as amended.

MR. McDONALD: "Notwithstanding the terms of any contract, the Board shall fix and determine the just and reasonable price or prices to be paid for natural gas after it has been purified, scrubbed or otherwise treated for the extraction or removal therefrom of sulphuretted hydrogen or other deleterious substance, including the price to be paid for such purified natural gas by a proprietor of a public utility as defined by this Act or by the Public Utilities Act purchasing the same for distribution to the ultimate consumer or otherwise." So that part of the work that is to be done in this hearing is to determine the price to be paid by the Gas Company and I submit that that supports my argument that the Gas Company is wholly within the jurisdiction of this Board.

Just as a matter of record, I refer to one other section, section 74, (1). This section deals with the matter of common carriers. It states: "Every proprietor of every pipeline engaged in gathering, transporting, handling or delivering natural gas shall be a common carrier in respect of all natural gas gathered or transported or handled or delivered or offered for gathering or transporting or delivery by means of such pipe line provided that the provisions of this subsection shall not

"apply to service pipe lines within the boundaries of any plant carrying on any industrial operation nor to pipe lines within the limits of a municipality used for the purpose of distributing natural gas."

(Go to page 2426)

With respect to that section I submit that in so far as the distributing lines of the Gas Company are, they are common carriers, - except for that item they are, - and within the terms of Subsection H of Section 2, they are not outside the jurisdiction of this Board.

Now in addition to the fact that there is nothing, I submit, in any of the subsections which I have read which detracts from the Jurisdiction and powers of this Board as contained in Section 18 which reads:

"The Board shall have exclusive power and jurisdiction to deal with all public utilities as defined by this Act and the proprietors thereof and subject to the provision hereof."

There are no provisions which detract from the specific powers and jurisdiction of the Board.

We have the fact too, Mr. Chairman, that the Gas Company has appeared at these hearings in response to the published notice of the Board and as I say has submitted to the jurisdiction of the Board, - it has not only appeared but it has taken an active part in the hearings. They have presented as witnesses Mr. R. E. Davis , Mr. Slipper and Mr. Brownie. They have cross-examined all witnesses and they have required statements in detail as submitted by witnesses very much along the line and the information that I am now seeking.

My main point, however, Mr. Chairman, is that the main purpose and object of this hearing is to fix the price to be paid by the Gas Company for gas supplied from Turner Valley as authorized by this Section 72, Subsection I (C) and the next purpose is to revise the contracts between the Madison and the Gas Company, formerly between the Royalite and the Gas Company,

as directed in Subsection 2 of Section 67.

THE CHAIRMAN: Have you explored the possibility, Mr. McDonald, that by the enactment of Subsection I, that contract may have totally disappeared.

MR. MCDONALD: Well that is a matter of argument. Some say it has and some say it has not. That is something which perhaps you will have to deal with later in this Hearing and on those grounds I think the Board has jurisdiction over the assets of this Company.

Now as to the powers of the Board to direct the Gas Company to provide in the manner in which the Board thinks reasonable the information requested, I think there is ample authority in the Board.

Section 19, Subsection 2 provides, or subsection 3 rather provides that:

"The Board shall, except as herein otherwise provided, as respects the amendment of proceedings, the attendance and examination of witnesses, the production and inspection of documents, the enforcement of its orders the payment of costs, and all other matters necessary or proper for the due exercise of its jurisdiction or otherwise for carrying any of its powers into effect, have all such powers, rights and privileges as are vested in the Supreme Court of Alberta."

And Subsection 7 of the same Section provides:

"Nothing herein contained is intended to give or shall be construed as in any manner giving to any corporation immunity of any kind."

And Subsection 9:

"The Board or any person authorized by the Board to make

inquiry or report, may when it appears expedient:

(C) Require the production of all books, plans, specifications, drawings and documents."

And under Section 40, Subsection I:

"The Board may appoint or direct any persons to make an inquiry and report upon any application, complaint or dispute before the Board, or upon any matter or thing over which the Board has jurisdiction."

And under Section 49 (I) "The Board shall have power:"and Subsection C:

"To require every public utility as herein defined to file with it complete schedules of every classification employed and of every individual or joint rate, or charge made, charged or enacted by it for any product supplied or service rendered within this Province as specified in such requirement ."

And Subsection 50, or Section 50 rather, Subsection I, (5), the Board shall have power to require any company:

"To furnish periodically, and whenever the Board shall require, a detailed report of finances and operations, in such form and containing such matters and verified in such manner as the Board may from time to time by order prescribe."

In addition, Mr. Chairman, there is Section 23 of the Act which provides for rules of practice and it makes applicable the rules of practice now in force under the Public Utility Act and there are three or four rules which are applicable to the proceedings, which amplify the power contained in the Act and the Sections I have read. I refer particularly

to Rule 14 and under Rule 14, dealing with the production and inspection of documents:

"Either party shall be entitled, at any time, before or at the hearing of the case, to give notice in writing to the other party to produce any book, document or writing in his possession, custody or control relating to the matters in question, for the inspection of the party giving such notice, or his solicitor, and to permit him to take copies thereof; and any party not complying with such notice shall not afterwards be at liberty to put such documents in evidence on his behalf in said proceedings, unless he satisfy the Board that he had sufficient cause for not complying with such notice."

I might say, Mr. Chairman, that during the course of this Hearing I have made application to the Gas Company and discussed the matter with their solicitor as to getting the evidence which I have asked for, the documents and information which I have referred to in my notice of motion and I have been told that it would not be given voluntarily and that is the purpose of issuing the notice of motion and making the application, instead of proceeding under Rule 14 by formal notice in writing to the Gas Company.

Now dealing with the merits of the application, that is to say, whether under all the circumstances this information should be adduced and furnished for the information of the parties interested in this Hearing and as a basis for argument and for the use of the Board in fixing the rates, - as I have mentioned the purpose of the Hearing is to fix the just and reasonable rate, a rate, a just and reasonable price for gas and the price, that is the most important price for this Board

to fix is that to be paid by the Gas Company to the Madison Company. It is in that price that there will be reflected the rate of return which will be allowed to the utilities in the field and the well-head price which will be allowed the producers who are supplying it and in that price also will be reflected the value of the gas supplied by the producers and the service rendered by the utilities, the field utilities, to the ultimate consumer. The fixing of this price is the sole concern of this Board. It is not a matter which is before the Public Utilities Commission and any matter or information whatsoever that has any bearing on the fixing of this price is relevant to this Hearing and any matter or information which any party to these proceedings deems necessary for the proper presentation of his case to this Inquiry or to this Commission, should be provided as a matter of right so that this Board can have that information and that party putting the evidence in can cross-examine upon it and base his argument upon it and unless that information is available in this Hearing then I think it can be well argued that such a party has not been given that which he is entitled to do under Section 60 of this Act, given full opportunity to make proof of all those things which he thinks should be brought to the attention of the Board. I think that is a matter of law. I cannot see how a price can possibly be fixed without giving me an opportunity on behalf of the producers to argue what is a fair price for the ultimate consumer of this gas to pay.

THE CHAIRMAN: Not the ultimate consumer, Mr. McDonald, The Board has no jurisdiction in my opinion and I am going to rule now, we have no jurisdiction.....

MR. MCDONALD: I am not going to argue you have any jurisdiction.

THE CHAIRMAN: To fix the price or consider the price to the ultimate consumer. That is something which may follow at a later date.

MR. MCDONALD: Well we have, I think it is well put in the evidence of Mr. Hill at page 1780 of the record, and as I will give it to you; at this stage in the Hearing Mr. Hill was being questioned by you Mr. Chairman and your question was:

"Q And I suppose from that we can assume that you subscribe to the principles laid down in Smyth & Ames?

A I think a Commission or Court considering a rate base has to give consideration to reproduction costs. I am not sufficiently hidebound to say that that is the only thing which should be put in it.

Q Tell me some of the others, what are the other things they should consider?

A They should consider present day value and I know of no better way to consider present day value than the reproduction costs new conservatively made. They should consider historical costs and the circumstances under which that cost was incurred, namely whether it was built by an operating organization or whether it was built at one single time under normal construction conditions and they should consider the value of the services, that is what the property is worth to its users and they should consider that as a maximum rate above which they should not go, no matter what rate base they use. That is the top. They must not go higher than the product is worth because if they do the users will not buy it.

Q That is what the Court lays down in Smyth vs. Ames but you have not applied all of them, no doubt you have good reasons for not doing so?

A I knew that the accountants were doing the job of original costs, I knew that the Commission would have that information before it. "

Now I submit, Mr. Chairman, that just as Mr. Hill set out in his argument, I assume, as Mr. Hill did, that the Board will have before it the information upon which the maximum rate, - not necessarily fixed by this Board, because I, acting for the producers, should have an opportunity of looking at it so that I can properly present and argue my case before this Board and the only way that you can arrive at that is by going to anything which intervenes between the producer in the field and the ultimate consumer, and that is the Gas Company and I submit we must have the information that I have requested in my notice of motions so that I can properly gauge what I should determine as being the price at the well-head that the producer should receive and in coming to that conclusion I have given some consideration to the legal position, the legal aspect which will be argued in due course before this Board. The Board is charged with fixing a just and reasonable price and in arriving at the said price the Board must of necessity have before it and hear argument on the information which I seek to have here.

The leading case of what is just and reasonable and applicable to these proceedings I submit is that of the Canada Southern Railway Company and the International Bridge Company, judgment of the Privy Council reported in 8 Appeal Cases at page 723 and referring to the question of what is just and reasonable the judgment of Lord Selborne contained this item:

"It certainly appears to their Lordships that the principle must be, when reasonableness comes in question, not what profit it may be reasonable for a company to make, but what it is reasonable to charge to the person who is charged. That is the only thing he is concerned with."

THE CHAIRMAN: Oh, that is not quite applicable to a public utility, Mr. McDonald.

MR. MCDONALD: That is a matter that I am prepared to argue.

THE CHAIRMAN: Because it is the very essence of regulation that a public utility shall have a reasonable, well founded rate of return.

MR. McDONALD: I think that exhausts my argument but I do want this information here so that we can in due course argue that exact point and I submit until I get this information I am not having a proper and fair hearing for my client before this Board.

Then there was a recent judgment in the Supreme Court of the United States dealing with the Natural Gas Utilities Act. I think it is, and my knowledge is, that the Natural GasUtilities Act as passed by the Congress of the United States deals entirely with inter-state matters, not intra-state, or gas which is transported wholly within the state. I believe,- I have not the exact reference but I think it is the Canadian River case, The Canadian River Gas Company vs. Federal Power Commission, and there it is said that no matter what allocation of costs due to the fact that some of the business conducted by that Company was intrastate and some of it was between States for a pipeline extending many hundreds of miles, it is worthy of note that the Federal Power Commission which was charged with the duty of fixing a rate for the interstate transportation of

gas did so upon an allocation based upon information dealing with the entire operations of the company. That Company which had its two types of business of necessity placed in evidence before that Commission all of the information that dealt with its entire business.

In this particular case we have almost an identical situation. We have the Gas Company which has a good number of miles of pipe line inside the Municipality and then on the other hand has a good number of miles outside the Municipality. One is under the jurisdiction of this Board and one is under the jurisdiction of the Public Utilities Board.

THE CHAIRMAN: Are you quoting from the judgment, Mr. McDonald?

MR. MCDONALD: Yes, I have the judgement direct from the Clerk of the Supreme Court.

THE CHAIRMAN: Is it reported?

MR. CHAMBERS: It is in the Public Utility Fort-nightly.

MR. STEER: Of June 7th.

THE CHAIRMAN: Well I have them in Edmonton.

MR. MCDONALD: And I submit that is an identical case. I think that is all that I can usefully say.

(Go to page 2434)

THE CHAIRMAN: Suppose we decide we have jurisdiction and make that order, Mr. McDonald, is not the relevancy of your application that you are asking the ability to pay on the part of the Calgary Gas Company ?

MR. McDONALD: Yes, that is one item. I think that is directly within the scope of this Hearing.

THE CHAIRMAN: Is there any other purpose in the application except to find out their ability to pay ?

MR. McDONALD: Oh certainly, under the amendments with reference to the pipe line, the Gas Company's pipe line, right in Calgary. The trunk line is under jurisdiction of this Board. Now it may very well be Mr. Chairman that I may want to argue that the pipe line rate as from Turner Valley to the City of Calgary is an item that should be taken into consideration. That is the pipe line for the transportation of gas by the Gas Company. Then we have another item, the delivery of gas to the Alberta Nitrogen Company which is not in the City of Calgary, but exclusively within the jurisdiction of this Board. It is all material and relevant.

THE CHAIRMAN: Then on the same assumption Mr. McDonald, supposing we fix a wholesale rate at Turner Valley based upon all those factors you have mentioned including the ability of the Gas Company to pay, is there anything to stop the Gas Company saying we are not interested, we do not want gas from Turner Valley at that price.

MR. McDONALD: Yes, I think this Act gives this Board authority to say to the Gas Company they have to buy that gas and direct the producer to sell it to them.

THE CHAIRMAN: Where is that Mr. McDonald ?

MR. McDONALD: Well it arises by inference I think.

MR. STEER: I would be interested to know that.

THE CHAIRMAN: Mr. McDonald, this Board is asked to say to the Gas Company, you are in the gas business and you shall continue in the gas business, and you shall sell gas to the people of Calgary, but there is nothing in the Act authorizing me to tell the Gas Company where they are to get their product and that is an interesting thing that arises out of Section 1, Sub-section 67.

MR. McDONALD: But you can direct any producer in this province where he shall sell.

THE CHAIRMAN: Yes, I can say, sell to the Madison or the Royalite but can I make them buy it from them ?

MR. McDONALD: No, but if the Gas Company wanted to stay in business they will have to buy gas from the producer.

THE CHAIRMAN: What is to stop them from laying another line and flanking Calgary ?

MR. McDONALD: Well we can leave that until it comes up.

THE CHAIRMAN: But this is a serious application you are making and you cannot say you will cross that bridge when we come to it. We may be at that bridge now. Mr. McDonald, I am not even remotely suggesting that your application is wrong. I am merely trying to explore one or two avenues that have occurred to me.

MR. McDONALD: Well my submission to you on that point is this, that this Board has the authority to designate the producer who is going to sell his gas to any particular market. That this Board has in its public utility authority authorize the expenditure of many thousands of dollars on one item. It was done at a time when gas was not available from other persons or places. It was done and the Gas Company came into this

Hearing and sat in represented by Counsel. They have consented and agreed to the expenditure of that money.

THE CHAIRMAN: Oh yes, I have those points.

MR. McDONALD: I am not prepared now to argue that point, but if you wish me to I will prepare an argument. I think the time is long past that the Gas Company or the City of Calgary or any other party can say, now we have all our installations made in Turner Valley, now this Board has used its best judgment and authorized these installations, now we are going to break away.

THE CHAIRMAN: I am quite clear the Legislature must do that. This Board cannot.

MR. McDONALD: Then in my opinion this Board has that authority to designate who is going to deliver gas to the City of Calgary and by so doing can control.

THE CHAIRMAN: So what you want to determine is this, having regard to the rate base which was fixed in 1931 and having regard to the rate of return which was allowed to the Calgary Gas Company in 1931 and which still remains and carrying that from 1931 down to the present time, you wish to ascertain if the Gas Company has earned more than the rate of return fixed by the Public Utilities Board. If it has then it has ability to pay a greater rate than now exists. That is boiling down to its essential points.

MR. McDONALD: Yes, I would like to make this clear. I am not suggesting that there should be any Hearing into the Gas Company rate base structure. We will have to accept their figures at their face value at this Hearing now.

THE CHAIRMAN: Do any other parties wish to join in this Application ?

MR. CHAMBERS: I am neither prosecuting it or opposing it.

THE CHAIRMAN: Mr. Fenerty, do you desire to join in the Application ?

MR. FENERTY: No, I am not taking any part in it.

THE CHAIRMAN: Mr. Harvie ?

MR. HARVIE: We are in the Application with Mr. McDonald but I have nothing further to add to his submission at the moment.

THE CHAIRMAN: Mr. Blanchard ?

MR. BLANCHARD: I do not think I have anything.

MR. STEER: Well I think it will be conceded up to this moment any factual material requested by any party to these proceedings which in our judgment was relevant to the Enquiry has been willingly furnished. That is the position which my clientsstill take , but the material to be furnished in our submission must be relevant and in deciding whether or not the material which my learned friend asks for is relevant, we must keep in mind what are the purposes of this Enquiry. I point out in the first place that the Canadian Western Company is, notwithstanding what my learned friend has said, not a public utility within the full scope of this Natural Gas Utilities Act. It is a public utility within the Public Utilities Act, and is under full control of the Public Utilities Board, and only to a very limited extent is it under the control of this Board. My learned friend just mentioned the aspects of the business of my client, which are under the jurisdiction of this Board. It has the power to make Orders with respect to the conduct of my client's pipe line. I have heard nothing save the suggestion that was recently made by my friend which indicates that the operation of that pipe line to the extent to which it

is under the jurisdiction of this Board is in question. The other aspects of the business which come within the jurisdiction of this Board is the contract rate at which my client is to furnish the city gas. The Board has to decide what that rate shall be. It has to decide whether it is going to start at the present rate fixed by bargaining in the market at 7 $\frac{3}{4}$ cents or it has to go back and decide whether it will start at the well and go up and perhaps alter the 7 $\frac{3}{4}$ cent rate. In order to enable it to do that in my respectful submission none of the material which my learned friend asks for is necessary. What has happened ? This Board has given orders for the expenditure of money to certain corporations which are merely public utilities within the full jurisdiction of the Board. Those orders having been given and that money having been expended, the Board is now sitting for the purpose of determining a just and reasonable rate which those utilities may charge for the services they may render.

THE CHAIRMAN: And to any customer whether it is the Calgary Gas Company or any other ?

MR. STEER: Yes, and I say that the material which is necessary for the determination of those questions is the material which is found summarized in the notice that was originally given of this Hearing and I challenge anyone, apart from the question of the fixing of that contract rate between the supplier of gas wholesale to the Gas Company and the Gas Company itself, apart from that one question I challenge anyone to find wherein the material which my friend asks for has any bearing on any one of the fourteen different points that are laid down in the original notice as the foundation of this Enquiry. I think that is all I have to say sir.

THE CHAIRMAN: Well the question is too important for any snap judgment to be given and we will reserve our judgment. Have you any further evidence on market sharing Mr. Chambers ?

MR. CHAMBERS: Not at the moment. I propose to call a Royalite witness after the plan is unfolded.

THE CHAIRMAN: I beg your pardon.

MR. CHAMBERS: After the full plan is unfolded. I want to hear the B. A. evidence.

THE CHAIRMAN: By way of rebuttal ?

MR. CHAMBERS: No I want to call the Royalite because there are certain things that the Royalite will agree to and there is a Royalite submission I want to put in.

THE CHAIRMAN: Then can you go on now Mr. Harvie ?

MR. CHAMBERS: The Royalite position does not deal primarily with the sharing position.

THE CHAIRMAN: Is it something we can go on with tomorrow ?

MR. CHAMBERS: I was not anticipating going on until we resumed in the Fall with that.

MR. HARVIE: I will call Mr. McCutchin.

J. A. McCUTCHIN, having previously been sworn, examined by Mr. Harvie, testified:

Q THE CHAIRMAN: You have already been sworn Mr. McCutchin ?

A Yes sir.

Q MR. HARVIE: Mr. Chairman, just for record purposes I wish to refer Mr. McCutchin to the evidence that he gave on the 27th of March, 1945 and which appears in Volume 15, as the method as corrected in the notes incorporated in Volume 21, of April 10th. Mr. McCutchin's evidence appears commencing on Page 1274 and continues and is completed on Page 1292.

You have read that evidence Mr. McCutchin have you ?

A Yes sir.

Q And with the Amendments that were filed ?

A Yes.

Q And you confirm that evidence ?

A Yes I do.

Q And Mr. McCutchin, there was some mention made of the Natural Gasoline Association of America contract this morning and it appears as Exhibit 92. Are you at all familiar with that contract ?

A Yes sir, I am somewhat familiar with it.

Q Are you familiar with the practice under which payments were made under that contract to the gasoline producer ?

A Yes.

Q Will you explain to the Commission in a general way some of the major differences between that and the practice in this field under the B. A. contract ?

A Under the B. A. natural gas contract the payment is made upon the total of recovered liquid from the gas that the plant recovers. Now the N. G. A. A. contract provides that the tests be made in the field and that the payment be made upon results of those tests. Now those tests may either be done by compressor or charcoal tests and the procedure which is not attached to or part of the contract, it is referred to there, provides for the method of testing. Now the method of tests with compression tests usually result in a much lower g.p.m. content for settlement purposes. What they do is they run the gas through the compressor and then through coils which is under ice water and reach the condenser in a graduated cylinder. That is fairly high test gasoline probably maybe forty pounds evaporation pressure. They let this gasoline set in the

cylinders until it has evaporated off approximately half. A thermometer is put in and I do not remember just the procedure but it is cut down somewhere in the vicinity of a twenty pound product. It results actually in practice in the N. G. A. A. procedure paying the producers less than half the amount the B. A. contracts in the Turner Valley field pay the producers, due to the procedure of making the tests and payment on the field test. We pay here on the total gasoline recovered in the plant and if you will refer to one of the statements here you will see it is approximately two and a half times as much under the method used or alternately in one of the Royalite's submittals, the last one I think, Mr. Stevens-Guille had here, as the g.p.m. test would indicate. In other words in going to compare them compare them in totals and you must recognize and consider the differences.

Q Any other major differences that occur to you ?

A There is a major difference mentioned regarding return of residue gas to the lease. We do not do that in the Turner Valley field. Generally gas is so lean that the raw gas is used as fuel. It does not pay to put it back. The situation here is that most of this N. G. A. A. gas proposition is based on very rich gas, on .75 for example being the lowest one they will take. Now the crude gas in the south end of the field and pretty well throughout the Valley will generally test on charcoal tests less than .2 as compared with their figure of .75. So they are handling a very rich quality having a very large quantity of condensible vapors in it. I would say too that the contract was not suitable for handling this extremely lean gas. Actually if you are going to handle it one way, you can say for example the absorption plant in Turner Valley is purely a

cleaning up proposition for the gas to make it marketable. It must have these small quantities of products out of it, but in themselves very very small. In fact I know of no plant in my experience that has operated consistently on such a low gas as that which we process in Turner Valley.

(Go to Page 2443)

Q Any other points that occur to you?

A Well,they are just similar contracts. I would not just say that you should use them any more than similar contracts. The attempt was made to bring them into line with the existing conditions here. The provision for 50% of the sale of residue gas is in both of them. Our operating conditions at the present time are certainly not the same, and I doubt seriously if there is any real point to be made by saying here is a contract built up in the industry which is usually designed for very rich vapours, and say that you could take that up holus bolus and plant it in an area where the gas is very lean and make any direct comparisons without considerable study of it.

Q And you do not think that that contract is adaptable to this field in its present form?

A No, I do not feel that that is adaptable to this field in its present form. I do not feel that we can just lift it out as a whole and put it in here to be used.

Q Mr. McCutchin, you are familiar with Exhibit 86, which is Madison's Report M-5, and their proposal for sharing the market?

A Yes sir, I have read that.

Q And you have heard the evidence submitted?

A Yes sir.

Q And you are not in accord with all the points contained in that submittal?

A No sir, not all of them.

Q And as a result of that you have prepared a proposal which you think is more equitable?

A Yes sir.

Q And that is a submittal, Volume 4 of the British American Gas Utilities Limited's proposal with regard to sharing of the market?

A Yes sir.

BRITISH AMERICAN GAS UTILITIES LIMITED PROPOSAL RE SHARING OF THE MARKET WAS THEN MARKED EXHIBIT 94.

Q Since that has been distributed, Mr. Chairman, there are three deletions we wish to make in it, and I think we might do that now. It is on page 4, paragraph 4, the first line, there is a phrase that is in brackets "Adjusted to a uniform basis with all other gas cap allowables in the field", we wish to delete that phrase where it appears in Paragraph 4, the same phrase in Paragraph 7, and the same phrase in Paragraph 10.

MR. CHAMBERS: Where does it appear the second time?

MR. HARVIE: Paragraphs 4, 7 and 10.

Q Now, Mr. McCutchin, will you be good enough to read that?

A

SUBMISSION BY BRITISH AMERICAN OIL CO. LTD.,

re

BRITISH AMERICAN GAS UTILITIES LTD.

in respect of

SHARING OF THE MARKET.

The word "value" appearsin there but that word should go out in the submittal. Volume 4. June 18th, 1945.

Since one of the main objects of the Natural Gas Utilities Act is to allow each producer of gas in the Turner Valley field an equitable share of the market, it is submitted that each and every well producing gas should be subject to the same uniform rules regarding sharing position, after making provision for Royalite conserved gas.

To carry out this suggestion we have prepared, and attach as Schedule "A", an outline of a method for giving effect to what we believe will prove to be a more equitable method of sharing the market between all wells in the field, both individually and as to areas, than other methods suggested to date.

We would point out that there are only two major differences in this plan of sharing the market and in Medison's sharing position submittals.

The first difference conerns gas well allowables for Royalite's gas cap. Medison proposes that these gas wells be defined and treated as a separate group while all other gas wells in the field be considered as oil wells. We submit that rules concerning all gas wells should be uniform so far as sharing position is concerned and that unless this is done inequalities may prevail so far as gas wells' sharing position is concerned.

I might explain there that it is pretty well recognized that there is a considerable difference between taking theoretical allowables used as a sharing position figure, and having gas wells actually producing. We do not know of any other method which might be adopted to handle the Royalite gas cap situation. We think it is a reasonable situation that the gas cap should be shut in, but we do not think that special rules should allow those wells to get a larger share of the market then they might have obtained had they been producing. Now it is recognized that a theoretical deduction has to be made from their allowable before this figure is taken over to the sharing position, but there are many factors you cannot take in. For example, other wells might have their allowables cancelled due to the fact that

they are frozen, but Royalite gas cap wells are allowed to go ahead at their allowables, and they would not be subject to that because they are not producing anyway. That provision must be made but there is no reason to go any further, because you do that for Royalite. There is no reason why you should not put them on the same basis.

The second difference concerns the handling of gas which is flared after passing through the Royalite, Gas & Oil Products, and British American Absorption Plants, due to inability of utility systems to handle such gas.

We submit that this gas should not be deducted from gas available to market so long as gas is being conserved or repressured. The price the producer will receive for repressured or conserved gas will most likely be less than the price for gas sold to the market; therefore, all producers of gas should be permitted to have flared gas deducted from their repressured or less valuable gas and such deductions should not affect the marketable gas so long as gas in sufficient quantity is available to meet their share of the market.

We would also point out that all flaring of gas could be avoided if sufficient stand-by equipment were installed. In making the utility installations, reasonable economics dictated that stand-by equipment was not advisable to handle all G.O.P. residue gas and all B.A. residue gas at all times. It was essential and necessary that Madison instal stand-by equipment capable of meeting all reasonable variations in load. Since stand-by equipment is located in one area and available only to one group of wells, this stand-by equipment should not be used for the sole benefit of one group at the expense of other groups through adoption of special rules beneficial to wells which have available this stand-by

equipment.

We also point out that, if flared gas is deducted from gas available to market rather than from repressured or conserved gas, there will possibly be a wide variation in Utility Company earnings which will necessitate numerous adjustments in rates. This condition will largely be avoided if our formula for sharing the market is adopted.

Now we go to Schedule "A" which is a schedule or a similar schedule as has appeared numerous times in M-16 and M-5. I will be glad to read it to you if anyone wants it, otherwise I might go through this and show what is similar and point out the differences, if that is satisfactory.

Q Might I suggest that so far as this is concerned, your submission was prepared before Exhibit 91 that was filed, which is the last Schedule "A" filed by Royalite.

A That is right.

Q Now their last Schedule "A", Exhibit 91, I think has resulted in negotiations and they have adopted the suggestions made by producers and others, and it has to a large extent cured your first criticism as to the treatment of the gas cap. So far as the B.A. gas cap is concerned, and the Royalite gas cap, I understand that Exhibit 91 does not cure as far as G.O.R. is concerned, is that correct?

A So far as I understand this business of taking uniform theories for the sharing position is, I believe, fundamental, and absolutely essential. It gives everyone the same treatment. You should give the same treatment to everyone as near as you can, and I see no reason why they should eliminate G.O.P., they should all be considered, whether there is one well or

a dozen, and it can be worked in, and they should be given the same treatment as the others, and I believe our submittal here does that.

Q Well will you just continue?

A On the first page of Schedule "A", I will just point out the ones that are the same, and pass over them, and if that is agreeable to everyone, it will save considerable reading and save considerable writing in the record. (a), (b), (c), (d), and (e) on the first page of Schedule "A" are exactly the same as the last one submitted by Madison.

THE CHAIRMAN: That is Exhibit 91?

A Exhibit 91, yes.

MR. CHAMBERS: Clause (f) is different?

A I have not got that clause (f) yet. (f) is different. We have got inserted a provision for B.A. gas cap wells.

Q MR. HARVIE: In the Madison that was left blank?

A In the Madison they were not described. I believe they were supposed to treat it some other way, but if we are going to have provision for other gas cap wells, we think they should be included too. (g) is the same. (h) is the same. (i) is different. This definition we have adopted here is quite similar to the defition of conserved gas in Board Order 17.

Q You adopted the same definition as the Board had already adopted in Board Order 17?

A I believe that is correct, yes. And all the following (j), (k), (l), (m), (n), (o), (p), (q), (r), (s), (t), (u), (v) and (w) are the same.

Q I think possibly Mr. McCutchin, that there was a later change in (w) which made it somewhat different?

A In (w)?

Q (w), is that the same?

A (w) is not the same. It is my mistake. I had that marked the same.

"Total Market Requirements" means all scrubbed natural gas (after being purified or scrubbed in the scrubbing Plant), sold and delivered in any month by Madisonn to Canadian Western Natural Gas, Light, Heat & Power Company Limited, Valley Gas Company Limited, Royalite, or to any other party or parties, except any such scrubbed gas sold and delivered for storage in other areas.

This takes out of the general market all the market requirements of Bow Island gas. That is taken care of a little bit later.

Now, the last part of this is quite a bit different, and I believe I had better just read it through because there are so many changes it would not save any time in making the comparisons.

Q Starting at paragraph 2, page 4?

A Starting at paragraph 2, page 4, yes.

The share of the market for each month shall be computed in accordance with, and on the basis of, the rules, principles or factors set forth and contained in clauses (3) to (11) hereof,both inclusive.

The volume of natural gas delivered from crude wells direct to Madison's system during the month shall at the end of the month be converted to residue or dry gas equivalent by deducting therefrom:

I might state here that I have tried to apply as many uniform rules to all three plans, that is Royalite, G.O.P. and the B.A., as could be done, and only made exceptions

where conditions were absolutely necessary.

(i) the portion thereof used by the Medison System during the month, for heater fuel and compressor engine fuel,

(ii) shrinkage in the volume occasioned by the extraction therefrom of the natural gasoline content,

(iii) the portion thereof used during the month in operation of the Scrubbing Plant and auxiliary plants and of Royalite's Plant,

(iv) any residue gas re-delivered therefrom to the producer, during the month, for lease or drilling fuel,

(v) any residue gas sold to Royalite or other parties for storage in the Bow Island field or other field outside the Turner Valley field.

We submit that the sale of gas from Bow Island to the Gas Company, or whoever buys it, is no different to the sale of gas to the G.O.P. refinery which they use for fuel. There is no difference in the sale of similar gas to Royalite domestic consumers in Turner Valley. There is no difference to drilling gas used in the field, which has been previously deducted from the marketable gas. This gas is actually sold therefore it should be deducted from the market sharing position of all the wells which contributed to that market.

Q Just to be clear, Mr. McCutchin, while the wording of the first four operations might be somewhat different than the Royalite wording, the general effect is much the same?

A It was intended to be the same, yes.

Q And the only addition that you have included in here is the fifth, dealing with Bow Island specifically?

A That is right.

Q Whereas you have left out of that formula the clause dealing with the deduction of flare gas downstream from the absorption plant?

A That has been left out. I do not believe we can follow these two from one to the other very easily. You will notice there is no provision here for deducting residue gas flared at the Royalite plant which was in their previous one. There has been, as you follow through, you will find that there has been no deduction from the G.O.P. plant for their flared gas, nor from the B.A. plant for their flared gas. The reason for that, as we see it, is that the gas is mentioned in the first part of the submittal. That gas which is to be repressured gas, the gas which is flared, in flaring the gas is not available to repressuring, and that gas is not available to market. It is not available either place. It is purely a matter of approach, which is the more reasonable. Going back a little further, the reason for flaring gas, the two main reasons, one is lack of equipment, of handling equipment for the gas at all times, and the other being the fluctuation of both the market and the producing rates of the wells, a condition which could logically be cured for enough money, a condition which could be cured if enough money were put into the system to do it.

Now paragraph 4. The volume of the Conservation Board's allowables (adjusted to a uniform basis with all other gas cap allowables in the field) of Royalite's Gas Cap Wells from which gas could have been produced and delivered to Madison during the month shall at the end of the month be converted to a residue or dry gas basis by deducting therefrom the same percentage as the total deductions in clause 3 bear to the total volume of natural gas delivered from crude wells direct to Madison's system during the month.

5. The total residue or dry gas equivalent of the volume of natural gas delivered from crude wells and the residue or dry gas equivalent of the total volume of Gas Cap Allowables, computed in accordance with the provisions of the last two paragraphs, shall constitute "Madison's Marketable Gas" for such month.

6. The volume of natural gas delivered from crude wells direct to B.A. Utilities System during the month shall at the end of the month be converted to residue or dry gas equivalent by deducting therefrom:

(i) the portion thereof used by the B.A. Utilities System during the month, for heater fuel and compressor engine fuel,

(ii) the portion thereof used, during the month, in the operation of the British American Plant and auxiliary plants, including its British American "fuel gas" Scrubbing plant,

(iii) shrinkage in the volume occasioned by the extraction therefrom of the natural gasoline content,

(iv) the proportion thereof used during the month in the operation of the Madison Scrubbing Plant and auxiliary plants in respect to B.A. Utilities' Marketable Gas,

(v) any residue gas re-delivered from the British American Plant to the Producer or others, during the month, for lease or drilling fuel.

It was the intention in this to take off all the things that were taken off in the previous arrangement for Madison, plus the fact that Madison has a special market, the Bow Island repressuring which we say should be taken off also.

7. The volume of the Conservation Board's allowables of B.A.'s Gas Cap Wells from which gas could have been produced and delivered to B.A. Utilities during the month shall at the end of the month be converted to a residue or dry gas basis by deducting therefrom the same percentage as the total deductions in clause 6 bear to the total volume of natural gas delivered from crude wells direct to B. A. Gas Utilities system during the month.

It was the intention here to handle the B. A. Gas Cap Wells so far as the sharing position is concerned in exactly the same manner as the Royalite Gas Cap Wells are handled, the only difference being that over the year the B. A. Gas Cap Wells will actually produce their allowables. It will be produced when the market demands it but over the year they will produce their allowables or approach it very closely.

8. The total residue or dry gas equivalent of the volume

of natural gas delivered from crude wells and the residue or dry gas equivalent of the total volume of Gas Cap Allowables, computed in accordance with the provisions of the last two paragraphs, shall constitute "B. A.'s Marketable Gas" for such month.

And the next section takes care of the G.O.P. handling it as near as practicable in the same manner.

9. The volume of natural gas delivered, during the month, from crude wells direct to the G.O.R. Plant shall, at the end of the month, be converted to residue or dry gas equivalent by deducting therefrom:

(i) the portion thereof used by G.O.P. during the month, for heater fuel and compressor engine fuel,

(ii) shrinkage in the volume occasioned by the extraction therefrom of the natural gasoline content,

(iii) the portion thereof used, during the month in the operation of the G.O.R. Plant and refinery and auxiliary plants,

(iv) the proportion thereof used, during the month, in the operation of the Madison Scrubbing Plant and auxiliary plants in respect to G.O.R. Marketable Gas,

(v) any residue gas re-delivered from the G.O.R. Plant to the Producer or others, during the month, for lease or drilling fuel.

10. The volume of the Conservation Board's allowables of G.O.P.'s Gas Cap Wells from which gas could have been produced and delivered to G.O.R.'s system during the month

shall at the end of the month be converted to a residue or dry gas basis by deducting therefrom the same percentage as the total deductions in clause 9 bear to the total volume of natural gas delivered from crude wells direct to G.O.R.'s system during the month.

11. "The Total Marketable Gas" during any month, shall be the total aggregate of Madison's Marketable Gas, plus B.A. Utilities' Marketable Gas plus G.O.R.'s Marketable Gas.

12. Madison's Share of the Market, for any month, shall be that proportion of the Total Market Requirements, for such month, which Madison's Marketable Gas for that month bears to the Total Marketable Gas for such month.

13. "B.A. Utilities" Share of the Market for any month, shall be that proportion of the Total Market Requirements, for such month, which B.A. Utilities' Marketable Gas, for that month, bears to the Total Marketable Gas for such month.

14. "G.O.R.'s Share of the Market, for any month shall be that proportion of the Total Market Requirements, for such month, which G.O.R.'s Marketable Gas for that month, bears to the Total Marketable Gas for such month.

THE CHAIRMAN: Any cross-examination?

MR. CHAMBERS: I have some questions but I would prefer not to go on until morning. I could file in five or ten minutes maybe.

THE CHAIRMAN: In that connection, Mr. Chambers, I am interested in the statement you made a little time ago that you wanted to deal with Royalite's submission regarding the Sharing of the Market at some other time.

MR. CHAMBERS: That all depends when we come to the end of this.

THE CHAIRMAN: That might be tomorrow.

MR. CHAMBERS: Yes. But I want to recall Mr. Stevens-Guille on this Sharing of the Market too.

THE CHAIRMAN: It is understood if there is time you will go ahead with it.

MR. CHAMBERS: Yes.

THE CHAIRMAN: All right. Cross-examination Mr. Fenerty?

MR. FENERTY: There may be one or two question I want to ask but I think they would sound more sensible if I had time to think it over during the interval.

THE CHAIRMAN: I know exactly what you all want. You want to adjourn.

(At this stage the Hearing was adjourned until 9:30 A.M. 28th. June, 1945.)

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